

Supporting China's Transition to a Market Economy

The Chinese government's socialist ideology has presented unique obstacles to the promotion of market-oriented reform in that open discussion of private enterprise or privatization has traditionally been prohibited. Despite the challenges of the political climate, private organizations and think tanks have successfully engaged in activities over the last several years to promote China's transition to a market economy, with the support and cooperation of the Center for International Private Enterprise (CIPE). Through a wide range of activities such as seminars, "how-to" book series and Web site development, these organizations have expanded political discussion, influenced policymakers, and educated economists and the general public on market economics.

CIPE's first partner organization in promoting a market economy in China was the Chinese Economists Society (CES). CES, a private, non-profit, professional and academic organization based in the United States, has worked since 1985 to establish a forum for debate on economic reform with policymakers in China. Almost all of its 400 members come from China, and the majority holds economics faculty positions at top universities throughout North America.

CES has played an invaluable role in China's transition to a market economy by educating thousands on market economics and influencing many high-level policymakers. CES's activities have also

been critical to the establishment of new private organizations in China. In recent years, CIPE has begun funding projects for new groups such as the Chinese Center for Economic Research (CCER), located at Beijing University and the Unirule Institute of Economics



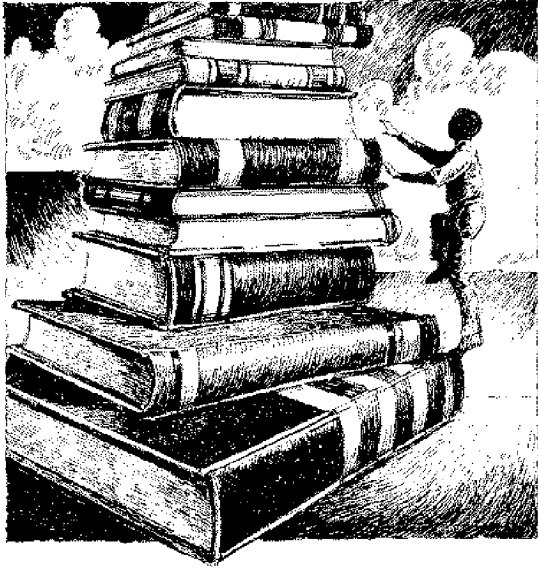
Private organizations are helping to promote change in China.

in Beijing. CIPE's strategy is that support for such indigenous organizations will have an even greater impact on the long-term success of China's transition to a market economy and democracy.

Initial Steps

CES has been a partner organization of CIPE since 1992. With funding from the National Endowment for Democracy, CIPE has cooperated with CES in eight projects in China that have played

a critical role in educating government officials and policymakers on private enterprise, upgrading the quality of debate on economic reform, increasing the public's access to information, and reintegrating internationally-trained Chinese economists into China. The overall long-term goal of these activities has been to



provide China with choices and alternatives that will successfully lead to a path of sustained market economics and a strong and thriving civil society. As China continues to move closer to a market-oriented economy, it is increasingly apparent that policymakers must be prepared for the many difficult decisions and reforms that will

have to be implemented.

CES has realized its objectives through two major types of activities: publications and international symposia. By producing two popular book series on market economics and modern business management in China, the organization has provided a reliable source of information about economic reform and private enterprise for government officials and the public. The CES symposia and conferences have been invaluable in opening a dialogue with government officials on sensitive topics related to market-oriented economic reform. CES has also been able to reach individuals who could not attend the programs by providing them reports published following the events.

Increasing Public Understanding

Because the Chinese government discouraged the advocacy of privatization, public availability of educational resources about private enterprise was limited. In response, CES launched two economic book series.

CES published its first book series on

popular market economics in 1993. Titles included *An Introduction to Macroeconomics*, *Modern Family Economics*, and *Everyday Life Economics—Observations of the American Society*. The series of 14 books sold more than 420,000 copies. Written by internationally trained Chinese economists for the general public, the series was unique in China, and won the *China National Book Award*. This was remarkable for an economics-based series competing with general interest books.

The second series dealt specifically with modern business management and included 12 titles such as *How to Build Your Own Business*, *Economics in Business Management*, *Introduction to American Business Law*, *Business Financial Management*, *Principles of Marketing*, *Mergers and Acquisitions*, and *Fundamentals of Securities Investments*. When the books were released, CES carried out a major promotional campaign with news conferences in Shanghai and Beijing. A number of Chinese government officials, intellectuals, business leaders, and economists, as well as television and print journalists, attended the conferences, furthering the publicity of the book series.

Best Sellers

The books were distributed throughout China, reaching 27 of China's 31 provinces. In the first two months following publication 99,500 copies (an average 8,300 copies per book) were sold, making them the best selling books of the kind in China. According to bookstores, university students were the primary buyers of the books, with government officials ranking second.

From 1978 onward the Chinese economy has undergone a gradual systemic change. According to the World Bank, economic reform has been "piecemeal, partial, incremental, sequential, and often experimental." Behind every reform measure that was approved and implemented, there was intensive debate on the benefits of marketization of the economy and the direction of reforms. In the early 1990s, the issues of

property rights and ownership reform represented two of the most hotly contested debate topics. However, CES foresaw that they were critical issues underlying China's entire reform process and particularly important for the Township and Village Enterprises (TVEs) that had become a key engine of growth in the non-state economy.

In 1994, CES held an international conference on TVEs in Hangzhou in Zhejiang Province. Attended by approximately 70 economists, policymakers, high-ranking and local officials, and TVE leaders, the conference provided an excellent opportunity for experts from diverse backgrounds to discuss the significant and sensitive issues of property rights and TVE ownership reform.

The Hangzhou conference faced several challenges before it convened. Provincial governors were banned from attending by the Chinese government because of the sensitivity of the topics. The conference was almost cancelled by conservative Chinese leaders but was saved by the positive reputation and credibility of CES and the fact that many overseas scholars had already been invited. Media coverage was banned.

Addressing Property Rights

Despite these challenges, the conference received significant attention and took an important step toward influencing policy reform. It was the first open meeting in China ever to address explicitly the issue of property rights. The conference also played an important role in calling attention to the potential problems that TVEs may eventually face. In an interview by the Zhejiang Institute of Asia-Pacific Studies, one participant of the conference from Zhejiang Province stated:

The conference reached a consensus on several issues regarding the property rights reform of TVEs. Through the conference, we all have recognized that the ownership reform is a crucial step for the further development of these enterprises. We have also realized the difficulties of property rights reform in practice. Local

people, based on their particular situations, should determine the specific forms of new ownership. The Hangzhou conference made a great contribution to property rights reform of TVEs in Zhejiang.

Promoting State Sector Reform

The political sensitivity of state enterprise reform posed a challenging opportunity for CES. Despite the urgent need for reform in this area, it was questionable whether a symposium on this topic would be allowed. Permission for a program in Shanghai was initially denied by Chinese authorities, but in July 1995 CES not only was able to hold the symposium, but also received the participation of Liu Ji, Vice President of the Chinese Academy of Social Sciences and a close advisor to President Jiang Zemin. Following the symposium, Liu requested a summary of the proceedings so that he could make a full report to President Jiang. Despite the controversial nature of the program, the symposium's message was delivered to the highest levels of the Chinese government.

Over three days, the seminar covered issues such as bankruptcy law, social welfare ramifications of state enterprise reform, unemployment and the use of surplus labor, clarification of property rights, debt restructuring, privatization of capital and investment efficiency, creation of fair competition, and redistribution of economic interests during state enterprise reform. The program was limited to 84 total participants including entrepreneurs, economists, Chinese national and local government officials, journalists, and overseas experts.

Partly because of its proximity to Hong Kong, Guangdong Province has long been at the vanguard of reforms in China. The initiative to pursue local reforms has been due in large part to pressures from a rapidly emerging entrepreneurial sector. Guangdong has been the fastest growing region in China, and much of its economy is market oriented. For its market growth to persist, however, local entrepreneurs require the support of a competitive and efficient finan-

cial system, one that is impossible under the current system of control.

To encourage the development of an efficient financial system, CES held a symposium on financial reform in July 1996 in Guangzhou. Participating were 60-70 government officials, academics and entrepreneurs from Guangzhou and Beijing as well as approximately 20 CES members based in North America. The symposium was the most practical and privatization-oriented to date of all the CES symposia, reflecting the more open attitude of local officials in the south of China toward the introduction of increased competition and market forces in the economy and development of the non-state sector. In addition, local newspapers and television were present and covered the proceedings, and CES leaders appeared in interviews on local television news programs.

Banking Competition is Needed

Discussions were quite candid in this symposium, and the message that private financial institutions should be granted permission to compete with the state-owned banks was stated openly, even by some Guangzhou government officials. Much of the discussion focused on the need to create private banks at the local level to support development of the non-state sector and to provide some competition for state institutions. Overall, the program provided an excellent and effective forum for reform-oriented government officials and academics in Guangzhou and overseas scholars to engage in a constructive dialogue on the pace and direction of continued liberalization in China.

Chinese leaders need policy advice on how to create a market-oriented social welfare system to support China's transition to a market economy. In June 1998, CES held a symposium in Beijing that provided opportunities for direct face-to-face dialogue between international and Chinese scholars and policymakers on this topic. Organized in collaboration with the Chinese Academy of Social Sciences, the high-level policy forum focused on the establishment of a

market-oriented social welfare system in China. More than 150 international and Chinese academics, researchers, policymakers, and journalists attended the plenary sessions. Several high-ranking Chinese government officials were also in attendance.

The symposium successfully raised a number of important issues facing Chinese policymakers including private vs. public management of social security, housing and social security reform, unemployment insurance and enterprise bankruptcy, state sector reform, and improving financial market functions. The symposium was divided into several roundtable discussions and workshops to facilitate more open dialogue between the participants. All the major Chinese news outlets attended the pre-symposium press conference as well as the actual program. Through television and newspapers, the conference was highly publicized and the message of market-oriented reform was disseminated all over China.

To further publicize the ideas of the event and to influence China's reform process, a follow-up publication was also developed. Titled *Social Security Reform in China*, it includes a selection of 52 articles that make up this 790-page book. It provides policy recommendations and is targeted to government officials, policy researchers and others interested in China's social security reform. The English version, not yet published, is more research-oriented. Titled *Social Security Reform: The Option for China*, it is expected to reach the marketplace in early 2000. The two books are the first in-depth publications that focus on social security reform in China.

Evolving Strategy

The efforts of CES over the past several years have helped lay the groundwork for the establishment of a number of new private organizations within China that are now active in promoting reform. Today, private organizations and think tanks within China are functioning and are increasingly influential in China's reform process. Strengthening

these indigenous organizations is now at the center of CIPE's strategy to create long-lasting change in China.

Among these organizations and think tanks in China is the Chinese Center for Economic Research (CCER), which was established in 1995. Funded by Beijing University and a number of international organizations including CIPE, CCER educates graduate and undergraduate students about market economics, provides training to economics faculty throughout China and conducts policy research and policy recommendations.

CIPE has worked with CCER on a number of projects, including the development of a market-economics textbook series and other activities. Currently, CCER is working with CIPE on an electronic clearinghouse for economic reform research and information—the China Economics Network (CEN). Created in 1998, CEN is already serving as a channel on the Internet for Chinese economists from around the country to communicate domestically and internationally on key reform issues and make positive contributions to the on-going debate in China on economic and political liberalization.

CIPE has also worked with the think tank Unirule Institute of Economics. Established in 1993, Unirule's mission is to promote public discussion on China's economic concerns and improvement in China's social problems such as poverty, and government corruption. CIPE has cooperated with Unirule over the last five years in organizing biweekly symposia in Beijing on key reform issues.

The symposia feature candid discussion on controversial topics such as privatization, democratization and human rights, and are playing an important role in nurturing a more open environment for political debate in China.

Organizations such as CCER and Unirule have benefited from the strides CES took in the early 1990s. Before the other organizations were established, CES successfully organized seminars that would have been difficult for think tanks in China to develop. Today, CCER and Unirule continue to benefit from cooperation with CES members as they educate future generations of Chinese economists and advance a more open political discussion of reform issues.

The task before CCER, Unirule and other reform-oriented Chinese organizations is to forge a more meaningful role for themselves in the policymaking process. Despite the current slower pace of reform in China and a crackdown against certain groups, there remains political space for policy debates among intellectuals and academics, and these organizations are taking advantage of this opportunity to promote reform. CIPE will continue to support their endeavors to help strengthen the voice of private reformers inside China. 🌐🌐

This project report on CIPE programs in China is drawn from independent evaluations that were conducted over the past year. The evaluations describe how three programs helped to change the debate over economic reform in China. The full text of these evaluations is available on CIPE's Web site at www.cipe.org.